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C O N F I D E N T I A L SECTION 01 OF 02 YEREVAN 000348

SIPDIS

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TAGS: [EAID](#) [ECON](#) [AM](#) [RU](#)  
SUBJECT: RUSSIA AND ARMENIA SIGN AGREEMENT ON USD 500  
MILLION LOAN

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#### SUMMARY

1. (C) Russia and Armenia on May 20 signed a long-anticipated agreement under which Russia will provide Armenia a USD 500 million loan aimed helping the GOAM mitigate the impact of the global financial crisis. A GOAM official has told us these funds will be used primarily for infrastructure projects and SME lending. The GOAM has consistently denied that the loan carries any non-financial conditions. FM Nalbandian mentioned to the Ambassador on May 9 that an additional loan from Russia could be in the cards. Since the start of the crisis, Armenia has received over USD 1 billion in pledges from the IMF, World Bank and Asian Development Bank, and is in the process of requesting additional IMF assistance to bolster its declining economy. End Summary.

#### LOAN AGREEMENT SIGNED

2. (SBU) On May 20 in Moscow, Russian Finance Minister Alexey Kudrin and Armenian Finance Minister Tigran Davtyan signed an agreement on the release of a USD 500 million loan. This loan had been expected for several months, and had recently been approved by the Russian Duma. The agreement still needs to be ratified by the National Assembly, and the GOAM expects to receive the funds by late June.

3. (C) The loan, which had been agreed in principle in February, will be repayable in 15 years, with a five-year grace period, and it carries an interest rate of four percent (LIBOR 3 percent). GOAM officials told us last week that there will also be a five-year grace period on repayment. Deputy Finance Minister Vardan Aramyan told us today that the GOAM plans to use half the money for housing construction in the earthquake zone around Gyumri, and the other half for SME lending; the GOAM will most likely buy the loan portfolios of banks that agree to provide SME loans at slightly reduced interest rates (15-16 percent compared to prevailing rates of 18-19 percent).

4. (C) GOAM officials have consistently denied that there are any "non-financial" terms attached to the loan, nor any plans to turn over ownership of any infrastructure as repayment for the loans. Several years ago the GOAM transferred ownership of the Hrazdan Thermal Power Plant fifth unit to a state-controlled Russian company as payment on a debt. In a meeting with the Ambassador on May 9, FM Nalbandian hinted at the possibility of yet another Russian loan to Armenia later in the year.

LATEST IN A SERIES OF CREDITS

15. (U) The GOAM has previously received pledges of USD 525 million (over four years) from the World Bank and USD 540 million from the IMF, and is currently negotiating several programs with the Asian Development Bank. So far about USD 340 million of that money has been disbursed. The World Bank approved a package of four operations for a total of USD 85 million in February, as the first installment of a four-year program: USD 35 million under the International Development Association (IDA) Fast Track Facility to support rural roads (USD 25 million), the Armenian Social Investment Fund (USD 8 million) and rural enterprise and small-scale commercial agricultural development (USD 2 million). Through the IBRD it is providing USD 50 million as a credit line for access to finance by SMEs. The World Bank loan carries a zero percent interest rate for the first USD 150 million, with the remainder at LIBOR one percent.

16. (U) The USD 540 million IMF Stand-By Arrangement for Armenia made USD 240 million out of a total USD 540 million loan available immediately upon its approval on March 6. The remainder will be disbursed in nine installments, though GOAM officials have indicated that they will seek to have those disbursements expedited. The IMF program requires certain exchange rate, monetary, financial and fiscal policies, as well as continued structural reforms. The IMF loan is provided at Special Drawing Rights (SDR) interest rate of 1.54 percent. The GOAM is in the process of requesting an additional loan of approximately USD 500 million from the IMF; an IMF team was in Yerevan last week to review the request with GOAM officials.

17. (U) The GOAM is negotiating for Development Policy Loans with the ADB for USD 40 million. It has also provided

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proposals for a USD 70 million Public Expenditure Support Program and USD 170 million for the North-South Road Corridors Investment Program, which will be presented to the ADB board for approval later this year. ADB is providing Armenia both concessional and hard window lending.

#### TIMELY AGREEMENT

18. (C) The Russian loan agreement was reached just as the latest information arrives about Armenia's declining economic performance. During the first four months of 2009, Armenia's GDP declined by 9.7 percent compared to the same period in 2008, construction declined by 20 percent, overall industrial output by 11 percent and exports by 48 percent. The Central Bank says it expects GDP to fall 5.8 percent this year, though at this point that estimate seems highly optimistic. Further details on Armenia's first quarter performance will be reported septel.

#### COMMENT

19. (C) The Russian loan has been discussed publicly for months, and it appeared to be just a matter of time before it would receive the required approvals and ratifications. Given Russia's own financial difficulties, the loan, however welcome by the Armenians, also has strategic benefit as Russia seeks to enhance ties with its CIS neighbors. Russian companies already own significant sectors of the Armenian economy. While in principle we give little weight to GOAM denials that it might transfer assets to Russia to repay the loan, it is useful to recall the comment of a GOAM official several months ago, who noted "there is nothing left to sell." End Comment.  
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